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SUBJECT: NEW MANZANILLO LNG PLANT: MEXICO PUTS OUT BIDS FOR
SUPPLY AND CONSTRUCTION

REF: A. 05 MEXICO 05260

[1](#)B. 05 MEXICO 02370

SUMMARY

[1](#)1. (SBU) The GOM published June 6 a solicitation for bids to construct a liquefied natural gas (LNG) storage and re-gasification plant at Manzanillo on Mexico's west coast, and another solicitation to supply LNG to the plant. Bids are due in by January 16, 2007. GOM officials and experts identify Peru, Australia and Russia as likely sources of LNG for the new facility, which will supply power to two western Mexican cities and help diminish the national gas deficit. Of all other LNG projects currently under consideration, Chevron's Coronado plant appears closest to realization, but has been put on hold due to a lack of supply. GOM officials expect Mexico's July 2 presidential elections may slow the momentum of the Manzanillo project, but that it will ultimately get back on track. End summary.

MANZANILLO BIDS DUE BY JANUARY 16, 2007

[1](#)2. (U) The GOM solicited bids June 6 for two projects - supply of liquefied natural gas (LNG) to a new LNG plant at the western port of Manzanillo, and construction of a storage and re-gasification plant of sufficient capacity to deliver 0.5 bcf/day of gas. Bids are due by January 16, 2007. Francisco de la Parra, Manager for Natural Gas at the Federal Electricity Commission (CFE), told Econoff the GOM anticipates signing these contracts by February/March 2007.

[1](#)3. (SBU) The delay in announcing the bids, originally due to be released earlier this year, was due to "bureaucratic uncertainty," according to Parra. The GOM needed to obtain necessary authorizations from the ministries of Finance and Energy, and PEMEX. Parra explained that CFE was doing its homework during this period, trying to identify probable sources of LNG for the Manzanillo plant. CFE was anxious to put out the bids before the upcoming July 2 Mexican presidential elections, to allow the project to acquire a presence in the market and a "name," as Parra put it, which would make it easier to obtain buy-in from the next Mexican presidential administration.

LNG LIKELY TO COME FROM RUSSIA, AUSTRALIA AND/OR PERU

14. (U) Parra said the GOM had had some difficulty identifying sources of gas in the current seller's market, and had considered Australia, Peru, Indonesia, Malaysia, Russia and Qatar as potential sources. Peru, in Parra's view, is a "reliable partner," and a country from which it is easier, in logistical terms, to transport LNG to Mexico. He said the GOM is also looking at Malaysia, drawing reassurance from the fact that Semptra, a "reliable" American company, in Parra's words, has already contracted there. Parra said that BP, Shell, and Chevron Texaco were interested in transporting Australian gas to Mexico, while Repsol had expressed interest in exporting Peruvian gas to Manzanillo.

15. (U) Parra stated that CFE would like to contract with a company that has a solid credit rating and could guarantee supply of LNG for 15 years. The GOM is particularly interested in integrating supply from diverse markets, such as Australia, Peru, and Indonesia, and it would like to see the company that signs the contract specify in its portfolio what sources it would tap. Tanya Ortiz Mena, Project Director for Semptra Energy, told Econoff that of all the supply alternatives currently under consideration, Russia (Sakhalin), Australia, and Peru are the most likely choices. Peru, Ortiz noted, has fewer alternative destinations for its LNG, rendering Mexico an attractive market. Ortiz remarked that Indonesian gas is already "contracted out."

GOM PUSHING FOR DISCOUNTED RATE - CALIFORNIA INDEX

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16. (U) Parra observed that Mexico is seeking to buy LNG at a discounted rate of 20-30 cents cheaper than the U.S. Henry Hub index. He believes sellers will be interested in Mexico's offer because his country offers proximity, and alternative destinations to U.S. terminals, which are currently operating at full capacity. Ortiz thought the GOM would be amenable to accepting the slightly discounted Southern Californian "Social Border" index, which, as of June 22, was USD 5.25/mmbtu, in contrast to Henry Hub, which stood at USD 5.51/mmbtu the same day.

17. (U) Parra said the Manzanillo LNG plant is slated to provide energy to four western Mexican power plants which are due to come on line by 2012 and will supply power to the western cities of Manzanillo and Guadalajara. The GOM has targeted the Manzanillo plant for conversion from very polluting fuel oil to natural gas, and for an expansion in its capacity. The GOM plans a third project in the future, which will involve laying a 260 km pipeline, with a capacity of 1,000 million cubic feet per day, to transport gas from Manzanillo to Guadalajara. This would link Mexico's west coast to the gas pipeline grid emanating from its east coast. The additional gas supply would help Mexico erase some of its national gas deficit. Mexico, a net exporter of gas before 2000, is now an importer from the United States, importing 600-800,000 mmbtu/day from 2000 until the present time. The nation's natural gas demand grew by 8.2 percent in 2004 and is expected to grow at an annual average of 5.2 percent until 2014, according to a Secretariat of Energy document describing Mexico's natural gas market prospects during 2005-2014. In absolute terms, national demand is expected to reach 9,493 mmcfd in 2014, from 5,722 mmcfd in 2004, according to the same document.

NO OTHER LNG PLANTS TO COME ON LINE ANY TIME SOON

18. (SBU) While Chevron-Texaco has received a permit to

construct its LNG plant at Coronado in Baja California, the company has refrained from going ahead with the project due to delayed production of gas from its fields in Australia. Parra described the chances that a planned 1.3 bcf/d re-gasification facility project at Puerto Libertad in Sonora on the Gulf of California would be built as "very firm," with supply slated for the Arizona market, but added that the GOM is first waiting to see how Manzanillo comes along. Ortiz, however, observed that Puerto Libertad has no suppliers. Parra noted that the LNG import terminal in Topolobampo, Sinaloa state, is next in line after Manzanillo to be awarded by the GOM. Ortiz remarked, however, that this project is not "going anywhere," because there are no companies interested in pursuing it.

19. (SBU) Ortiz observed that her company is satisfied with the progress it has achieved at its Ensenada plant. In approaching Ensenada, her company, Semptra, built on its familiarity with the gas industry in Mexico, which it had derived from prior work on infrastructure projects (gas pipelines and distribution and power generation) in Baja California. She reported that the federal and state governments in Baja were very supportive, but that the local government had "issues" with the fact that electricity rates had remained high in the region. Ortiz observed that Semptra expects to start delivering 1 bcf/day of gas from January 2008, which it will import, in LNG form, from Indonesia and Russia.

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